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EGYPT: President Sadat's address to the nation last night was primarily a fence-mending effort designed to mollify and undercut domestic and foreign--primarily Soviet--opponents of his recent policy innovations. At the same time, he made no apologies for those policies and made it clear that he will pursue them. Although generally circumspect toward the US, Sadat made some uncharacteristically benevolent statements, reflecting a guarded optimism that Washington intends some action to break the Middle East impasse.

The most dramatic portion of the speech, made on the anniversary of President Nasir's death, came at its conclusion when Sadat announced an amnesty for a group of students arrested during demonstrations early this year, as well as the reinstatement of a large number of journalists purged for their leftist views. The conciliatory gestures are designed to head off the possibility of further student disturbances when the school year opens next month, to answer legitimate student grievances, and to give substance to Sadat's moves toward social liberalization.

On the subject of his domestic and foreign policy reforms, Sadat, in essence, invoked the memory of Nasir to support his program of change away from Nasirism and socialism. Noting that one of Nasirism's most important characteristics is "its ability to respond to constant movement," Sadat explained his own policy of "evolution" as both based on his predecessor's movement and unique in itself. Although intending to ease the misgivings of remaining Nasir devotees, Sadat could not resist the temptation to emphasize the greater merit of his own program over Nasir's; his government has proved, he said, "that the man came from the nation, and not the nation from the man."

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Although Sadat derided the US for supporting Israel and echoed his usual rejection of an interim agreement to reopen the Suez Canal and institute a partial Israeli withdrawal, he expressed pleased surprise at Secretary of State Kissinger's meeting on 25 September with Arab representatives at the UN. Sadat noted that Egypt has already made its position clear to the US, but he did not use the occasion to spell out the controversial specifics of that position. Sadat remains skeptical of US intentions, but his approach reflects a sense of expectation toward possible US moves on the Arab-Israeli conflict and a desire to avoid dampening prospects for movement. He made a point of noting at the end of his speech that he had deliberately avoided rhetoric on "the battle."

Sadat took a balanced approach toward Egypt's delicate relations with the USSR. Without ever mentioning the Soviets directly, he explained policy changes that have been disturbing Moscow in terms intended to ease Soviet misgivings, but he did not give any indication that he plans to alter his new moves away from socialism. Sadat is not a friend of the Soviets, but he wants to maintain good relations with them, and he has been at pains, since initiating his policy realignment in July, to portray the Soviets as political allies.

This relaxed attitude has met with a testy Soviet reaction. Moscow is apprehensive at the implications of Sadat's moves for its interests in the area,

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**USSR-INDIA:** Indian Food Secretary Joneja announced yesterday that India has accepted a Soviet offer to supply India with 2 million tons of food-grains "on a loan basis." In a letter to Prime Minister Gandhi, Soviet Party Secretary Brezhnev said that the offer was made "taking into account India's food difficulties" and that delivery of the grain would start immediately.

The Soviet grain harvest is almost complete, and appears to be a record. The USSR is expected to remain a net importer of grain this fiscal year, but a record crop will permit the Soviets to sell grain to countries other than their traditional client states.

It is not known how much Soviet grain will arrive to ease the lean period before the main Indian harvest in November. Nonetheless, expectation of these imports, along with other grain imports, and anticipation of a good fall harvest should encourage sales of harvested stocks and ease pre-harvest tension. Grain arrivals after the harvest will help the government rebuild its depleted stocks. Although the means of payment were not specified, the Soviets requested that repayment be made in kind as in a similar offer to Bangladesh in July.

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BRAZIL: President-designate General Geisel may be causing some friction in Brasilia because of his concern that the Medici administration is not fully coming to grips with inflation.

While Geisel, who will succeed President Medici next March, has not complained publicly, he feels he will inherit a difficult economic situation. Geisel's concern indicates that his administration probably will take a more aggressive line against inflation, even at the sacrifice of some economic growth. It has been apparent for some time that Brasilia's highly publicized goal of reducing inflation to 12 percent this year probably will not be attained.

The relationship between Geisel and Medici has been complicated by a lack of effective communication on all matters. Medici probably is concerned about losing control of his administration and becoming a lame duck. His ministers and key officials could be making matters worse by keeping Geisel at arm's length. Geisel, for his part, probably wants to avoid being blamed for policies that he did not have a part in formulating. These strains may become more intense in the coming months unless Medici includes his successor in making decisions that will affect his future.

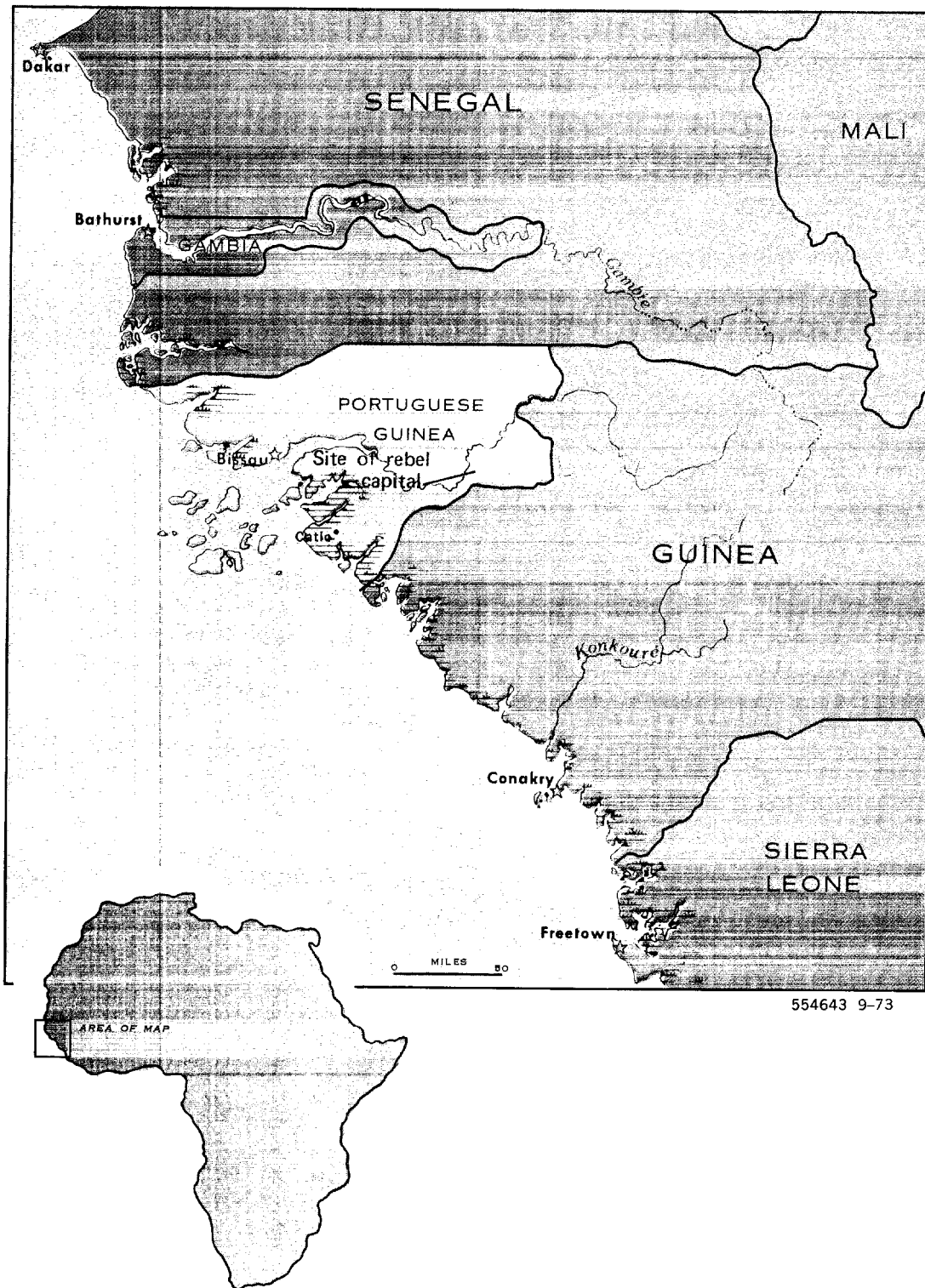
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PORTUGUESE GUINEA: The anti-Portuguese rebels have finally announced their long-planned declaration of an independent state of "Guinea-Bissau."

Earlier this week, a "national popular assembly" met inside the territory and proclaimed independence, adopted a constitution, and announced the leadership of their new government. According to a communiqué issued by the rebels' African Party for the Independence of Guinea and Cape Verde (PAIGC), Luiz Cabral and Francisco Mendes, both major party figures, will serve as chief of state and head of government respectively. Aristides Pereira remains the head of the party. The rebels claim that their headquarters and capital will be located in a small town in southeastern Portuguese Guinea.

The PAIGC intends this move to bring political pressure on the Portuguese, who still exercise effective control over the important areas of Portuguese Guinea. The PAIGC hopes that a formal presence inside the territory and the achievement of wide diplomatic recognition will afford them an appearance of legitimacy and enable them to gain increased foreign economic and military assistance.

A PAIGC spokesman told US officials in Conakry, Guinea, that the new government is willing to talk with the Portuguese. In the past, Portugal has refused to talk with insurgents from any of its African territories. Lisbon is not now likely to change that policy and will continue to argue that the PAIGC does not have the support of the people of Portuguese Guinea.

The rebel government has been recognized by Yugoslavia, Romania, and a number of Arab and African states. Most other African and nonaligned nations are expected to follow suit. The Soviet Union, long a supporter of the PAIGC, has publicly welcomed the independence declaration and will almost certainly grant recognition now that some major African states have taken the lead. Other international reaction will become clearer when the Africans raise the question of Guinea-Bissau's status at the UN. [REDACTED]

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USSR-Cuba: A Soviet Kresta-II frigate has returned to Havana after escorting a damaged submarine part way across the Atlantic. The frigate is rejoining a Soviet destroyer and an F-class submarine that have been in the Caribbean since early August. These ships probably will continue to exercise with the Cuban Navy for at least another month. [REDACTED]

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Pakistan: Wali Khan, leader of the National Awami Party, the largest opposition party, escaped injury yesterday when the vehicle he was riding in was fired on by unknown assailants. Wali Khan's position as party leader and as spokesman for most of the nation's Pushtun tribesmen gives him the power to turn this incident into a dangerous confrontation with the government if he so chooses. [REDACTED]

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Algeria-Poland: Poland has given a \$98-million credit to Algeria, bringing Polish aid to that country in 1973 to \$245 million. This total is the largest amount made available to any state by a Communist country so far this year. Poland has now committed about \$1 billion in aid to less developed countries. The new assistance to Algeria will be used for development projects, presumably under Algeria's 1974-77 development plan, and may be partially repayable in oil.

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*\*These items were prepared by CIA without consultation with the Departments of State and Defense.*

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